

CITY OF HOLSTEIN

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2011

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CITY OF HOLSTEIN

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mary Gross	Mayor	January 2012
Morgan McAreavy	Council Member	January 2012
Rodney Regennitter	Council Member	January 2012
Dan Ehler	Council Member	January 2014
Julie Lukins	Council Member	January 2014
Todd Vohs	Council Member	January 2014
Marlo Schoer	City Administrator	Indefinite
Renee' Leonard	Deputy Clerk	Indefinite
Thad Cosgrove	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
Holstein, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Holstein, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Holstein as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2012, on our consideration of City of Holstein's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 20 and 21 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

City of Holstein, Iowa, has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Holstein's basic financial statements. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

March 5, 2012

Hungelman, Putzier & Co.

CITY OF HOLSTEIN
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Exhibit A

Functions/Programs:	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 217,522	\$ 91,030	\$ 20,659	\$ 2,810	\$ (103,023)	\$ -	\$ (103,023)
Public works	229,776	111,106	142,760	-	24,090	-	24,090
Health and social services	29,178	17,276	-	-	(11,902)	-	(11,902)
Culture and recreation	260,749	151,909	10,190	-	(98,650)	-	(98,650)
Community and economic development	25,072	-	-	-	(25,072)	-	(25,072)
General government	128,092	2,318	-	-	(125,774)	-	(125,774)
Debt service	265,516	-	-	-	(265,516)	-	(265,516)
Capital projects	274,911	-	-	218,931	(55,980)	-	(55,980)
Total governmental activities	1,430,816	373,639	173,609	221,741	(661,827)	-	(661,827)
Business type activities:							
Water	158,347	227,219	-	-	-	68,872	68,872
Sewer	187,251	214,189	-	-	-	26,938	26,938
Total business type activities	345,598	441,408	-	-	-	95,810	95,810
Total	\$ 1,776,414	\$ 815,047	\$ 173,609	\$ 221,741	(661,827)	95,810	(566,017)
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					352,978	-	352,978
Debt service					108,063	-	108,063
Tax increment financing					108,322	-	108,322
Local option sales tax					116,530	-	116,530
Other city taxes					12,362	-	12,362
Unrestricted interest on investments					1,645	-	1,645
Special assessments					1,797	-	1,797
Miscellaneous					9,996	-	9,996
Transfers					46,969	(46,969)	-
Total general receipts and transfers					758,662	(46,969)	711,693
Change in cash basis net assets					96,835	48,841	145,676
Cash basis net assets beginning of year					235,526	4,432	239,958
Cash basis net assets end of year					\$ 332,361	\$ 53,273	\$ 385,634

(continued)

CITY OF HOLSTEIN
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Exhibit A
(continued)

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Charges for	Operating	Capital	Governmental	Business Type	Total
<u>Disbursements</u>	<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Activities</u>	<u>Activities</u>	
		<u>Contributions</u>	<u>Contributions</u>			
Cash Basis Net Assets						
Restricted:						
Expendable:						
Streets				\$ 36,997	\$ -	\$ 36,997
Tax increment purposes				97,282	-	97,282
Other purposes				224,719	-	224,719
Unrestricted				(26,637)	53,273	26,636
Total cash basis net assets				<u>\$ 332,361</u>	<u>\$ 53,273</u>	<u>\$ 385,634</u>

See notes to financial statements.

CITY OF HOLSTEIN
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Exhibit B

	Special Revenue					Capital			
	General	Road Use Tax	Local Option Sales Tax	Urban Renewal	Lohff Estate	Projects	Debt Service	Nonmajor	Total
Receipts:									
Property tax	\$ 319,083	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 108,063	\$ 33,895	\$ 461,041
Tax increment financing	-	-	-	108,322	-	-	-	-	108,322
Other city tax	12,362	-	116,530	-	-	-	-	-	128,892
Licenses and permits	4,803	-	-	-	-	-	-	-	4,803
Use of money and property	2,897	-	-	-	720	-	-	-	3,617
Intergovernmental	30,768	139,623	-	-	-	76,595	-	-	246,986
Charges for services	355,079	-	-	-	-	-	-	-	355,079
Special assessments	-	-	-	1,797	-	-	-	-	1,797
Miscellaneous	26,727	-	-	1,082	-	142,336	-	-	170,145
Total receipts	<u>751,719</u>	<u>139,623</u>	<u>116,530</u>	<u>111,201</u>	<u>720</u>	<u>218,931</u>	<u>108,063</u>	<u>33,895</u>	<u>1,480,682</u>
Disbursements:									
Operating:									
Public safety	217,522	-	-	-	-	-	-	-	217,522
Public works	115,985	109,848	-	-	-	-	-	3,943	229,776
Health and social services	25,947	-	-	-	-	-	-	3,231	29,178
Culture and recreation	244,802	-	-	-	-	-	-	15,947	260,749
Community and economic development	-	-	-	25,072	-	-	-	-	25,072
General government	68,920	-	-	-	-	-	-	59,172	128,092
Debt service	-	-	-	-	-	-	265,516	-	265,516
Capital projects	-	-	-	-	-	274,911	-	-	274,911
Total disbursements	<u>673,176</u>	<u>109,848</u>	<u>-</u>	<u>25,072</u>	<u>-</u>	<u>274,911</u>	<u>265,516</u>	<u>82,293</u>	<u>1,430,816</u>
Excess (deficiency) of receipts over disbursements	<u>78,543</u>	<u>29,775</u>	<u>116,530</u>	<u>86,129</u>	<u>720</u>	<u>(55,980)</u>	<u>(157,453)</u>	<u>(48,398)</u>	<u>49,866</u>
Other financing sources (uses):									
Operating transfers in	91,500	-	-	-	-	52,349	229,519	-	373,368
Operating transfers out	(35,199)	-	(85,000)	(206,200)	-	-	-	-	(326,399)
Total other financing sources (uses)	<u>56,301</u>	<u>-</u>	<u>(85,000)</u>	<u>(206,200)</u>	<u>-</u>	<u>52,349</u>	<u>229,519</u>	<u>-</u>	<u>46,969</u>
Net change in cash balances	134,844	29,775	31,530	(120,071)	720	(3,631)	72,066	(48,398)	96,835
Cash balances beginning of year	<u>128,702</u>	<u>7,222</u>	<u>25,939</u>	<u>217,353</u>	<u>166,530</u>	<u>(83,843)</u>	<u>(182,361)</u>	<u>(44,016)</u>	<u>235,526</u>
Cash balances end of year	<u>\$ 263,546</u>	<u>\$ 36,997</u>	<u>\$ 57,469</u>	<u>\$ 97,282</u>	<u>\$ 167,250</u>	<u>\$ (87,474)</u>	<u>\$ (110,295)</u>	<u>\$ (92,414)</u>	<u>\$ 332,361</u>

CITY OF HOLSTEIN
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Exhibit B
 (continued)

	Special Revenue					Capital Projects	Debt Service	Nonmajor	Total
	General	Road Use Tax	Local Option Sales Tax	Urban Renewal	Lohff Estate				
Cash Basis Fund Balances									
Restricted for:									
Streets	\$ -	\$ 36,997	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,997
Tax increment financing projects	-	-	-	97,282	-	-	-	-	97,282
Other purposes	-	-	57,469	-	-	-	-	-	57,469
Assigned for equipment	163,287	-	-	-	-	-	-	-	163,287
Unassigned	100,259	-	-	-	167,250	(87,474)	(110,295)	(92,414)	(22,674)
Total cash basis fund balances	<u>\$ 263,546</u>	<u>\$ 36,997</u>	<u>\$ 57,469</u>	<u>\$ 97,282</u>	<u>\$ 167,250</u>	<u>(87,474)</u>	<u>(110,295)</u>	<u>\$ (92,414)</u>	<u>\$ 332,361</u>

See notes to financial statements.

CITY OF HOLSTEIN
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Exhibit C

	<u>Enterprise</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating receipts:			
Charges for services	\$ 219,792	\$ 213,782	\$ 433,574
Miscellaneous	<u>7,427</u>	<u>407</u>	<u>7,834</u>
Total operating receipts	227,219	214,189	441,408
Operating disbursements:			
Business type activities	<u>145,013</u>	<u>117,368</u>	<u>262,381</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>82,206</u>	<u>96,821</u>	<u>179,027</u>
Non-operating disbursements			
Debt service	-	(69,883)	(69,883)
Capital projects	<u>(13,334)</u>	<u>-</u>	<u>(13,334)</u>
Net non-operating disbursements	<u>(13,334)</u>	<u>(69,883)</u>	<u>(83,217)</u>
Excess (deficiency) of receipts over disbursements	68,872	26,938	95,810
Operating transfers out	<u>(27,319)</u>	<u>(19,650)</u>	<u>(46,969)</u>
Net change in cash balances	41,553	7,288	48,841
Cash balances beginning of year	<u>22,405</u>	<u>(17,973)</u>	<u>4,432</u>
Cash balances end of year	<u>\$ 63,958</u>	<u>\$ (10,685)</u>	<u>\$ 53,273</u>
Cash Basis Fund Balances			
Unrestricted	<u>\$ 63,958</u>	<u>\$ (10,685)</u>	<u>\$ 53,273</u>

See notes to financial statements.

CITY OF HOLSTEIN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Holstein is a political subdivision of the State of Iowa located in Ida County. It was first incorporated in 1882 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer services for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Holstein has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City of Holstein has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint members to: Ida County Assessor's Conference Board, Ida County Public Safety and Communications Commission, the Joint County/Municipal Disaster Services, Emergency Planning Administration, and Ida County Landfill Commission. Payments made to Ida County Public Safety and Communications Commission during the year ended June 30, 2011, were \$162,605.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

CITY OF HOLSTEIN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation – (Continued)

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and, (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the main operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the collection of local option sales tax received to be used for property tax relief and other purposes as determined by the City Council.

The Urban Renewal Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Lohff Estate Fund is used to fund capital improvements and major repairs to the community center.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Debt Service Fund is used to account for property tax and other receipts to be used for the payment of principal and interest on the City's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

CITY OF HOLSTEIN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting

City of Holstein maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

2. CASH

The City's deposits in banks at June 30, 2011, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

CITY OF HOLSTEIN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

2. CASH – (Continued)

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3, as amended by Statement 40.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

3. NOTES AND BONDS PAYABLE

Annual debt service requirements to maturity for general obligation bonds and notes, and revenue bonds are as follows:

Year Ending <u>June 30,</u>	General Obligation Bonds and Notes		Sewer Revenue Bonds		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 182,000	\$ 65,358	\$ 60,000	\$ 13,130	\$ 242,000	\$ 78,488
2013	187,000	57,235	60,000	11,300	247,000	68,535
2014	168,000	48,826	65,000	9,395	233,000	58,221
2015	174,000	40,967	65,000	7,413	239,000	48,380
2016	150,000	32,633	70,000	5,355	220,000	37,988
2017-2021	466,000	76,797	140,000	4,305	606,000	81,102
2022-2026	140,000	8,610	-	-	140,000	8,610
	<u>\$ 1,467,000</u>	<u>\$ 330,426</u>	<u>\$ 460,000</u>	<u>\$ 50,898</u>	<u>\$ 1,927,000</u>	<u>\$ 381,324</u>

Sewer Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,036,000 in sewer revenue bonds issued in May, 1997. Proceeds from the notes provided financing to pay a portion of the cost of constructing improvements and extensions to the sewer system. The notes are payable solely from sewer customer net receipts and are payable through 2018. The total principal and interest remaining to be paid on the notes is \$510,898. For the current year, principal and interest paid, and total customer net receipts were \$69,625 and \$96,821 respectively.

CITY OF HOLSTEIN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

3. NOTES AND BONDS PAYABLE – (Continued)

Sewer Revenue Bonds – (Continued)

The resolution providing for the issuance of the sewer revenue bonds includes the following provisions:

- a. The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate sewer revenue sinking account for the purpose of making the bond principal and interest payments when due.
- c. Additional monthly transfers shall be made to a separate sewer reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of making bond principal and interest payments when insufficient money is available in the sinking account.

The City has not established the sinking or reserve accounts required by the sewer revenue bond resolution.

Loan Agreement

On July 1, 2009, the City entered into a loan agreement with a local bank to borrow \$60,750 to purchase a front end loader. The loan bears interest at 6.50% per annum and matures on July 1, 2014. The City began making scheduled annual principal and interest payments of \$14,618 on July 1, 2010. The loan will be repaid from future collections of a debt service levy on all taxable property in the City. A summary of the annual principal and interest requirements to maturity for the loan agreements is as follows:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2012	6.50%	\$ 11,315	\$ 3,303	\$ 14,618
2013	6.50	12,053	2,565	14,618
2014	6.50	12,854	1,764	14,618
2015	6.50	13,913	917	14,830
		<u>\$ 50,135</u>	<u>\$ 8,549</u>	<u>\$ 58,684</u>

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2011, was \$19,370, equal to the required contribution for the year.

CITY OF HOLSTEIN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

5. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	
Vacation	\$ 13,751
Sick leave	<u>11,665</u>
Total	<u>\$ 25,416</u>

Sick leave is payable when used or upon retirement or death. If paid upon retirement or death, the total accumulated hours are paid at the then effective hourly rate for that employee. This liability has been computed based on rates of pay in effect at June 30, 2011.

6. SERVICE AGREEMENTS

The City has an agreement with Holstein Sanitation Services for refuse collection and hauling of solid waste and recyclable materials. Payments under this agreement were \$99,599 for the year ended June 30, 2011.

7. INTERGOVERNMENTAL AGREEMENT

The City entered into an agreement with Ida County to provide for the disposal of solid waste.

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The costs to the County for compliance with these requirements have been estimated at \$370,020 according to the County's latest audit report available which was for the year ended June 30, 2010. The Ida County Landfill closed during fiscal year 2008.

The County has begun to accumulate resources to fund these costs and, at June 30, 2010, assets of \$408,566 are restricted for these purposes.

8. BUDGET OVEREXPENDITURE

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2011, the disbursements in the community and economic development, general government, capital projects, and business type activities functions exceeded the amounts budgeted.

9. DEFICIT FUND BALANCE

The Capital Projects, Debt Service, Employee Benefits, Economic Development, and Sewer funds had deficit balances of \$87,474 \$110,295, \$70,738 and \$26,091, \$10,685 respectively at June 30, 2011. These deficit balances are a result of costs incurred prior to availability of funds. These deficit balances will be eliminated by tax increases, transfers from other funds, increased rates, or cost reductions.

CITY OF HOLSTEIN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

10. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2011, consisted of the following:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 85,000
	Enterprise:	
	Water	4,000
	Sewer	2,500
		<u>91,500</u>
Capital Projects	General	35,199
	Enterprise:	
	Sewer	17,150
		<u>52,349</u>
Debt Service	Special Revenue:	
	Urban Renewal	206,200
	Enterprise:	
	Water	23,319
		<u>229,519</u>
Total		<u>\$ 373,368</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

11. RISK MANAGEMENT

City of Holstein is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

12. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 6 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

CITY OF HOLSTEIN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

12. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – (Continued)

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$368 for single coverage and \$919 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$49,786 and plan members eligible for benefits were not required to contribute to the plan.

13. CONSTRUCTION CONTRACTS AND COMMITMENTS

The City has entered into the following contracts which were not completed as of June 30, 2011.

<u>Project</u>	<u>Total Contract Amount</u>	<u>Amount Paid As of June 30, 2011</u>	<u>Remaining Commitment As of June 30, 2011</u>
Walking/bike trail	\$ 173,594	\$ 166,671	\$ 6,923
East Ridge addition	810,769	778,252	32,517
Engineering	193,105	175,137	17,968

The remaining commitment on these projects will be financed with funds on hand.

14. SUBSEQUENT EVENT

The City has issued \$300,000 of general obligation corporate purpose and refunding bonds dated October 1, 2011 to finance the construction/improvement of the City's water system and refund the outstanding balance of the 2000 and 2003 general obligation bond issues.

15. URBAN RENEWAL DEVELOPMENT AGREEMENT

The City has entered into a development agreement for an urban renewal project with the Galva Holstein Ag, LLC (the "Company"). The agreement requires the City to rebate portions of incremental property tax paid by the Company in exchange for infrastructure improvements, rehabilitation, and development of commercial projects by the company. The total to be paid by the City under the agreement is not to exceed \$60,000.

During the year ended June 30, 2011, the City rebated \$19,894 of incremental property tax to the Company. The total cumulative principal amount rebated on the agreements is \$45,789. The outstanding balance on the agreement at June 30, 2011 was \$14,211.

The agreement is not a general obligation of the City and is not recorded as a liability in the City's financial statements. However, the agreement is subject to the constitutional debt limitation of the City.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HOLSTEIN
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES –
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final To Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 461,041	\$ -	\$ 461,041	\$ 448,556	\$ 448,556	\$ 12,485
Tax increment financing	108,322	-	108,322	120,377	120,377	(12,055)
Other city tax	128,892	-	128,892	95,639	215,639	(86,747)
Licenses and permits	4,803	-	4,803	3,525	3,525	1,278
Use of money and property	3,617	-	3,617	32,731	44,431	(40,814)
Intergovernmental	246,986	-	246,986	331,622	331,622	(84,636)
Charges for service	355,079	433,574	788,653	711,100	711,100	77,553
Special assessments	1,797	-	1,797	-	-	1,797
Miscellaneous	170,145	7,834	177,979	28,150	28,150	149,829
Total receipts	<u>1,480,682</u>	<u>441,408</u>	<u>1,922,090</u>	<u>1,771,700</u>	<u>1,903,400</u>	<u>18,690</u>
Disbursements:						
Public safety	217,522	-	217,522	221,236	229,036	11,514
Public works	229,776	-	229,776	249,581	249,581	19,805
Health and social services	29,178	-	29,178	28,416	29,416	238
Culture and recreation	260,749	-	260,749	263,553	275,753	15,004
Community and economic development	25,072	-	25,072	18,567	18,567	(6,505)
General government	128,092	-	128,092	94,722	101,368	(26,724)
Debt service	265,516	-	265,516	337,411	337,411	71,895
Capital projects	274,911	-	274,911	186,500	186,500	(88,411)
Business type activities	-	345,598	345,598	303,011	303,011	(42,587)
Total disbursements	<u>1,430,816</u>	<u>345,598</u>	<u>1,776,414</u>	<u>1,702,997</u>	<u>1,730,643</u>	<u>(45,771)</u>
Excess (deficiency) of receipts over disbursements	49,866	95,810	145,676	68,703	172,757	(27,081)
Other financing sources (uses)	<u>46,969</u>	<u>(46,969)</u>	<u>-</u>	<u>85,000</u>	<u>85,000</u>	<u>(85,000)</u>
Excess of receipts and other financing sources over disbursements and other financing uses	96,835	48,841	145,676	153,703	257,757	(112,081)
Balance, beginning of year	<u>235,526</u>	<u>4,432</u>	<u>239,958</u>	<u>(184,287)</u>	<u>90,713</u>	<u>149,245</u>
Balance, end of year	<u>\$ 332,361</u>	<u>\$ 53,273</u>	<u>\$ 385,634</u>	<u>\$ (30,584)</u>	<u>\$ 348,470</u>	<u>\$ 37,164</u>

See accompanying independent auditor's report.

CITY OF HOLSTEIN
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION – BUDGETARY REPORTING
JUNE 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year ended June 30, 2011 the budget was amended one time which increased budgeted disbursements by \$27,646. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements in the community and economic development, general government, capital projects, and business type activities functions exceeded the amounts budgeted.

SUPPLEMENTARY INFORMATION

CITY OF HOLSTEIN
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Schedule 1

	Special Revenue			
	Employee Benefits	Economic Development	Geber Trust	Total
Receipts:				
Property tax	\$ 33,895	\$ -	\$ -	\$ 33,895
Disbursements:				
Operating:				
Public works	3,943	-	-	3,943
Health and social services	3,231	-	-	3,231
Culture and recreation	15,947	-	-	15,947
General government	59,172	-	-	59,172
Total disbursements	82,293	-	-	82,293
Net change in cash balances	(48,398)	-	-	(48,398)
Cash balances beginning of year	(22,340)	(26,091)	4,415	(44,016)
Cash balances end of year	\$ (70,738)	\$ (26,091)	\$ 4,415	\$ (92,414)
Cash Basis Fund Balances				
Unassigned	\$ (70,738)	\$ (26,091)	\$ 4,415	\$ (92,414)

See accompanying independent auditor's report.

CITY OF HOLSTEIN
SCHEDULE OF INDEBTEDNESS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Schedule 2

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
General obligation bonds and notes:								
Corporate purpose	June 1, 2000	5.35-5.55%	\$ 475,000	\$ 130,000	\$ -	\$ 25,000	\$ 105,000	\$ 7,040
Corporate purpose	June 1, 2003	3.40-3.50%	240,000	80,000	-	25,000	55,000	2,713
Water improvement	August 1, 2005	3.45-4.05%	565,000	430,000	-	45,000	385,000	16,133
Property acquisition	February 15, 2007	7.00%	370,000	268,000	-	36,000	232,000	18,760
Corporate purpose	January 1, 2008	3.60-4.10%	800,000	735,000	-	45,000	690,000	28,452
Total				<u>\$ 1,643,000</u>	<u>\$ -</u>	<u>\$ 176,000</u>	<u>\$ 1,467,000</u>	<u>\$ 73,098</u>
Revenue bond:								
Sewer	May 5, 1997	3.00%	\$ 1,036,000	<u>\$ 515,000</u>	<u>\$ -</u>	<u>\$ 55,000</u>	<u>\$ 460,000</u>	<u>\$ 14,625</u>
Loan agreement:								
Front end loader	July 1, 2009	6.50%	\$ 60,750	<u>\$ 60,750</u>	<u>\$ -</u>	<u>\$ 10,615</u>	<u>\$ 50,135</u>	<u>\$ 4,004</u>

See accompanying independent auditor's report.

CITY OF HOLSTEIN
BOND AND NOTE MATURITIES
JUNE 30, 2011

Schedule 3

General Obligation Bonds and Notes

Year Ending June 30,	Corporate Purpose Issued June 1, 2000		Corporate Purpose Issued June 1, 2003		Water Improvement Issued August 1, 2005		Corporate Purpose Issued February 15, 2007		Corporate Purpose Issued January 1, 2008		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2012	5.35%	\$ 25,000	3.40%	\$ 25,000	3.45%	\$ 50,000	7.00%	\$ 37,000	3.60%	\$ 45,000	\$ 182,000
2013	5.40	25,000	3.50	30,000	3.60	50,000	7.00	37,000	3.60	45,000	187,000
2014	5.45	25,000	-	-	3.70	55,000	7.00	38,000	3.60	50,000	168,000
2015	5.55	30,000	-	-	3.80	55,000	7.00	39,000	3.70	50,000	174,000
2016	-	-	-	-	3.90	55,000	7.00	40,000	3.70	55,000	150,000
2017	-	-	-	-	4.00	60,000	7.00	41,000	3.90	55,000	156,000
2018	-	-	-	-	4.05	60,000	-	-	3.90	60,000	120,000
2019	-	-	-	-	-	-	-	-	4.05	60,000	60,000
2020	-	-	-	-	-	-	-	-	4.05	65,000	65,000
2021	-	-	-	-	-	-	-	-	4.10	65,000	65,000
2022	-	-	-	-	-	-	-	-	4.10	70,000	70,000
2023	-	-	-	-	-	-	-	-	4.10	70,000	70,000
		<u>\$ 105,000</u>		<u>\$ 55,000</u>		<u>\$ 385,000</u>		<u>\$ 232,000</u>		<u>\$ 690,000</u>	<u>\$ 1,467,000</u>

Sewer Revenue Bonds
Issued May 5, 1997

Year Ending June 30,	Interest Rates	Amount
2012	3.00%	\$ 60,000
2013	3.00	60,000
2014	3.00	65,000
2015	3.00	65,000
2016	3.00	70,000
2017	3.00	70,000
2018	3.00	70,000
		<u>\$ 460,000</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
Holstein, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Holstein, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 5, 2012. Our report expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Holstein's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Holstein's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Holstein's internal control over financial reporting.

Our consideration of internal control over financial reporting was for limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-11, I-B-11, and I-C-11, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Holstein's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Holstein's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Holstein's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Holstein, and other parties to whom City of Holstein may report. This report is not intended to be and should not be used by anyone other than these specified parties.

March 5, 2012

Henzelman, Rutzler & Co.

CITY OF HOLSTEIN
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

- I-A-11 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by either of two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The City will review its operating procedures as regards to internal controls, and will implement more effective policies and procedures as opportunities present themselves.

Conclusion - Response accepted.

- I-B-11 Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response - Management has, and will continue to attend classes, seminars, and other educational opportunities in order to enhance our capacity to prepare reliable OCBOA financial statements.

Conclusion - Response accepted.

- I-C-11 Reconciliation of Utility Billings, Collections, and Delinquencies - Utility billings, collections, and delinquent accounts were not reconciled throughout the year.

Recommendation - Procedures should be established to reconcile utility billings, collections, and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response - Utility billings, collections, and delinquent accounts will be reconciled for each billing period throughout the year as recommended.

Conclusion - Response accepted.

CITY OF HOLSTEIN
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-11 Certified Budget - Disbursements during the year ended June 30, 2011, exceeded the amount budgeted in the community and economic development, general government, capital projects, and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public moneys may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - In the future, the City will amend the fiscal budget in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa.

Conclusion - Response accepted.

- II-B-11 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-11 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Julie Lukins, Council Member, husband is owner of Lukins Construction	Labor and repair	\$1,167
Marlo Schoer, City Administrator, husband owns S&S Sales	Supplies and parts	\$ 322

In accordance with chapter 362.5(3)(k) of the Code of Iowa, these transactions do not appear to represent conflicts of interest since the cumulative amounts were less than \$2,500 during the fiscal year.

- II-E-11 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

CITY OF HOLSTEIN
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Part II: Other Findings Related to Required Statutory Reporting: (Continued)

- II-F-11 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not. However, although minutes of Council proceedings were published, they did not include a summary of receipts and disbursements as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should insure the minutes are published as required and include a summary of receipts and disbursements.

Response – The City will ensure a summary of receipts and disbursements are published monthly with the minutes as required by Chapter 372.13(6) of the Code of Iowa.

Conclusion – Response accepted.

- II-G-11 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa. However, the investment policy was last reviewed several years ago and since that time certain sections of the Code of Iowa dealing with the investment policy have been changed.

Recommendation - The Council should review and approve the investment policy periodically and update the Iowa Code references.

Response – The investment policy was updated by Resolution 2011-18 in December 2011, in compliance with Iowa Code Chapter 12B. The document will be reviewed and updated periodically.

Conclusion – Response accepted.

- II-H-11 Revenue Bonds - The City has not established the sewer sinking account as required by the bond resolution.

Recommendation - The City should establish the sewer sinking account and made the required transfers.

Response – Resolution 2008-07 provides for reduction of the interest rate on the sewer revenue bonds, and for the release of the reserve fund monies. The City shall create a sewer sinking fund, and make the required transfers.

Conclusion – Response accepted.

- II-I-11 Financial Condition - At June 30, 2011, the City had deficit balances in the Capital Projects Fund, Debt Service Fund and Special Revenue Funds: Employee Benefits and Economic Development, of \$87,474, \$110,295, \$70,738, and \$26,091, respectively. Also, the Sewer Fund had a deficit balance of \$10,685.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial condition.

Response – The City will monitor balances and eliminate the deficits in order to return the funds to a sound financial condition.

Conclusion – Response accepted.

CITY OF HOLSTEIN
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Part II: Other Findings Related to Required Statutory Reporting: (Continued)

- II-J-11 Excess Balances - The following fund has a balance at June 30, 2011, which is in excess of one year's expenditures:

Special Revenue - Lohff Expendable Trust

Recommendation - While it appears that this fund may have an excessive balance, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining this substantial balance and, where financially feasible, consider reducing the balance in an orderly manner through revenue reductions.

Response - The Lohff Expendable Trust is kept and used for capital outlay improvements to the Lohff Schumann Memorial Community Center.

Conclusion - Response accepted.

- II-K-11 Form 1099 - The Internal Revenue Service requires that Form 1099 be prepared when disbursements for services to a non-corporate entity exceed \$600 in a calendar year. The City is currently not issuing 1099's.

Recommendation - The City should monitor yearly disbursements by vendor and issue a Form 1099 when required.

Response - The City shall monitor disbursements to vendors and issue a Form 1099 if required by the Internal Revenue Service.

Conclusion - Response accepted.

- II-L-II City Code of Ordinances - The City has not compiled the City ordinances within the past five years.

Recommendation - Chapter 380.8 of the Code of Iowa states in part, "At least once every five years, a city shall compile a code of ordinances containing all City ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances, and ordinances vacating streets and alleys". The City should compile the City ordinances as required.

Response - The City anticipates recodification of the code of ordinances in fiscal year ending June 2014. The zoning ordinances will be updated in fiscal year ending June 2013.

Conclusion - Response accepted.